

Decision **PROPOSED DECISION OF ALJ MIKITA** (Mailed 12/23/2015)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) for Authorization to
(1) issue debt securities in an aggregate principal amount of up to \$2,800,000,000;
(2) include certain features in debt securities or enter into certain derivative transactions;
(3) hedge issuances of debt securities; and
(4) take all other necessary, related actions.

Application 15-08-018
(Filed August 25, 2015)

**DECISION AUTHORIZING SOUTHERN CALIFORNIA GAS COMPANY
TO ISSUE DEBT SECURITIES**

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**DECISION AUTHORIZING SOUTHERN CALIFORNIA GAS COMPANY
TO ISSUE DEBT SECURITIES**

1. Summary

In response to Application (A.) 15-08-018 filed by Southern California Gas Company (SoCalGas), this decision grants SoCalGas authority pursuant to Public Utilities Code Sections (Pub. Util. Code §§) 816 - 818 and 851 to do the following:

1. To issue secured debt, unsecured debt (debentures), foreign debt, direct long-term loans, accounts-receivable financing, variable-rate debt, and fall-away mortgage bonds (collectively, "Debt Securities") in an aggregate principal amount not to exceed \$2,650,000,000, including Debt Securities secured by utility property.
2. Use debt-enhancement features, derivative transactions, and hedging strategies to lower the cost or improve the terms and conditions of the Debt Securities for the benefit of ratepayers.

The authority granted by today's decision will become effective when SoCalGas pays a fee of \$1,077,262 pursuant to Pub. Util. Code § 1904(b). The fee is due no later than 30 days from the effective date of today's decision.

SoCalGas is authorized to use the proceeds from the issuance of Debt Securities to fund its significant capital expenditures regarding safety and reliability infrastructure-related projects, for which SoCalGas has or is in the process of requesting Commission authority, including the Pipeline Safety Enhancement Plan (PSEP),¹ Transmission Integrity Management Program

¹ PSEP Phase 1 application (A.11-11-002). See D.14-06-007. PSEP Phase 1 cost recovery application (A.14-12-016), status active. PSEP Phase 2 application (A.15-06-013), status active. To date, SoCalGas has incurred approximately \$600 million in costs for PSEP Phase 1, without any recovery of the corresponding operations and maintenance (O&M) costs and capital

Footnote continued on next page

(TIMP), Distribution Integrity Management Project (DIMP),² continued rollout of Advanced Metering Initiative (AMI)³ meter sets, North-South Pipeline and anticipated gas infrastructure system capital spending pursuant to SoCalGas' 2016 GRC, which was filed in November 2014, and is currently pending Commission review and approval. Also, SoCalGas requires additional long-term debt authority for new issuances to replace \$7.5 million and \$500 million of long-term debt that matures in 2016 and 2018 respectively. These authorized uses will help SoCalGas fulfill its obligation under Public Utility Code § 451 to "furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities...as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public."

The cost of the Debt Securities authorized by today's decision, including interest expense and amortized issuance costs, will depend on market conditions at the time the debt is issued.

In A.15-08-018, SoCalGas requested authority to issue \$2.8 billion of long-term debt. Today's decision reduces SoCalGas' request by \$150 million, which is equal to the amount of long-term debt that SoCalGas has not yet issued pursuant to its authority under D.13-05-002.

This proceeding is closed.

revenue requirements of \$142 million recorded to its PSEP memorandum and balancing accounts, since D.14-06-007 is subject to an after the fact reasonableness review.

² TIMP and DIMP cost recovery was addressed in SoCalGas' general rate case (GRC) (A.10-12-006). See D.13-05-010 and D.13-10-027 (2012 GRC Decisions). TIMP and DIMP cost recovery is also being currently addressed in SoCalGas' 2016 GRC (A.14-11-004), status active.

³ See A.08-09-023, and D.10-04-027 (AMI Decision).

2. Procedural Background

Southern California Gas Company (SoCalGas) is a public utility subject to the Commission's jurisdiction. SoCalGas is engaged primarily in the purchase, distribution, transportation, and sale of natural gas to approximately 20 million customers in southern California and parts of central California. SoCalGas owns underground storage reservoirs, natural gas transmission pipelines, compressor plants, distribution pipelines, service meters, metering and regulating stations, booster stations, office buildings, general shops, warehouses for materials and supplies, and other property necessary for its business.

SoCalGas filed Application (A.) 15-08-018 on August 25, 2015. Notice of A.15-08-018 appeared in the Commission's Daily Calendar on August 27, 2015. There were no protests or responses to the application.

SoCalGas served prepared written testimony concurrently with its application. The testimony included more than a dozen tables and schedules which together purport to show that SoCalGas has a need to issue additional debt to finance capital expenditures and to refinance maturing long-term debt. On October 21, 2015, SoCalGas filed a motion to admit its prepared testimony into the evidentiary record. The motion was granted in a ruling issued by the assigned Administrative Law Judge (ALJ) on October 28, 2015. On November 13, 2015, SoCalGas filed a motion to admit supplemental prepared testimony into the evidentiary record. The motion was granted in a ruling issued by the assigned Administrative Law Judge (ALJ) on November 18, 2015.

3. Existing Authority to Issue Debt and Equity

The following table shows the amount of long-term debt and equity that SoCalGas is authorized to issue by prior Commission decisions, the amount of

debt and equity issued pursuant to these decisions, and the remaining unused authority to issue debt and equity:

Table 1 Previously Authorized Debt and Equity (\$ million)						
Decision	Authorized		Issued		Unused Authority	
	Long-Term Debt	Preferred Stock	Long-Term Debt	Preferred Stock	Long-Term Debt	Preferred Stock
D.96-09-036	600	100	600	000	000	100
D.03-07-008	715	---	715	---	000	---
D.06-07-012	400	100	400	000	000	100
D.09-09-046	800	---	800	---	000	---
D.13-05-002	1118	---	968	---	150	---
Total	\$3,633	\$200	\$3,483	\$000	\$150	\$200

Table 1 shows that the Commission previously authorized SoCalGas to issue \$3.633 billion of long-term debt and \$200 million of preferred stock, for a combined total of \$3.833 billion. Table 1 further shows that SoCalGas has unused authority to issue \$150 million of long-term debt pursuant to Decision (D.) 13-05-002, unused authority to issue \$100 million of preferred stock pursuant to D.06-07-012, and unused authority to issue \$100 million of preferred stock pursuant to D.96-09-036, for total unused authority of \$350 million.

4. Summary of the Application

4.1. Requested Authorizations and Findings

In A.15-08-018, SoCalGas asks the Commission to issue an order pursuant to Pub. Util. Code §§ 816 - 818 and 851 that contains the following:

1. Authority to issue Debt Securities in an aggregate principal amount not to exceed \$2.8 billion. The principal amount, terms, and conditions of each issuance of Debt

Securities will be determined by SoCalGas' management or board of directors based on market conditions at the time of issuance.

2. Authority to include certain features in SoCalGas' Debt Securities or to enter into certain derivative transactions related to underlying debt, as necessary, to improve the terms and conditions of the SoCalGas' debt portfolio and lower SoCalGas' cost of money for the benefit of ratepayers.
3. Authority to hedge, when appropriate, existing or planned issuances of Debt Securities within reasonable limits established in the Commission's Financing Rule.
4. Specifically finding, as required by Section 818 of the Public Utilities Code, that in the opinion of the Commission, the money, property or labor to be procured or paid for by such issues is reasonably required for the purposes so specified, and that, except as otherwise permitted in the Order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
5. Providing that the authority granted in such Order shall be effective upon payment of the fee prescribed in Sections 1904(b) and 1904.1 of the Public Utilities Code.
6. Providing that the authority granted in such Order shall be in addition to the authority granted in D.96-09-036, D.06-07-012, and D.13-05-002.
7. Providing that the additional features associated with the Debt Securities granted in such Order be similarly authorized for the unused authority previously granted in D.96-09-036, D.06-07-012, and D.13-05-002.
8. Granting such additional authorizations as the Commission may deem appropriate.

4.2. Use of Proceeds

SoCalGas requests authority to issue \$2.8 billion of Debt Securities for the following two purposes: (1) refinance \$7.5 million and \$500 million of long-term

debt that matures in 2016 and 2018 respectively, and (2) finance construction expenditures for gas distribution, transmission and storage, AMI, PSEP, and the North-South Pipeline Project during the three-year period of 2016 - 2018. The following table shows SoCalGas' forecast of its cash requirements for the years 2016 - 2018:

Table 2 SoCalGas Forecasted Cash Requirements for Years 2016 - 2018 (\$ millions)				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
<u>Uses of Cash</u>				
Construction Expenditures	(1,387)	(1,532)	(1,271)	(4,190)
Maturing Long-Term Debt	(7)	---	(500)	(507)
Preferred Stock Dividend	(1)	(1)	(1)	(3)
Common Stock Dividend	(50)	(50)	(50)	(150)
Beginning Cash Balance	(214)	(64)	26	(214)
Subtotal	(1,659)	(1,647)	(1,796)	(5,064)
Less: Estimated Cash From Internal Sources	695	773	837	2,305
External Funds Required	(964)	(874)	(959)	(2,759)
External Funds Provided:				
Long-term debt (A.15-08-018)	900	900	1000	2,800
Ending Cash Balance	(64)	26	41	41

Table 2 shows that over the three-year period of 2016 - 2018, SoCalGas forecasts it will need \$5.064 billion of cash to pay for construction expenditures (\$4.190 billion), maturing long-term debt (\$507 million), preferred stock dividends (\$3 million), and common stock dividends (\$150 million). Table 2 further shows that SoCalGas will obtain the necessary cash from internal sources (\$2.305 billion) and from issuing the Debt Securities requested in A.15-08-018

(\$2.800 billion), leaving SoCalGas with a net increase in its cash balance of \$255 million (i.e., an increase from \$(214) million to \$41 million) at the end of 2018. SoCalGas forecasts payments of common stock dividends of \$150 million over the three-year period. The forecasted payments include dividend payments to its parent company.⁴

In its Application filed on August 25, 2015, SoCalGas seeks to issue Debt Securities in an aggregate principal amount not to exceed \$2.8 billion, in addition to previously authorized amounts of unused debt capital, including \$150 million of long-term debt pursuant to D.13-05-002. SoCalGas also has unused authority to issue \$100 million of preferred stock pursuant to D.06-07-012, and \$100 million of preferred stock pursuant to D.96-09-036.

4.3. Types of Debt Securities

SoCalGas is requesting many of the same types of Debt Securities requested in its last financing, A.12-12-003, which was approved by the Commission in D.13-05-002. The requested Debt Securities will have a maturity in the range of 12 months to 100 years, depending on the type of Debt Security. First Mortgage Bonds (FMBs) and Direct Long-Term Loans (DLTLs) may be issued under an indenture or a supplement to an existing indenture to be delivered to the trustee for such issue. The indenture or supplemental indenture would set forth the terms and conditions of each issue of Debt Securities. The specific types of Debt Securities requested by SoCalGas are described below:

⁴ As part of this Application, SoCalGas has provided a Balance Sheet and a Statement of Income and Retained Earnings for the three months ended March 31, 2015. In the notes to the Balance Sheet, SoCalGas indicates that it has paid common stock dividends to its parent company, Sempra Energy, in the amount of \$50 million in 2013, \$100 million in 2014, and \$0 in 2015, for a total of \$150 million during 2013 through March 31, 2015.

Secured debt. Secured debt may be secured by a lien on property or through other credit-enhancement arrangements described in Section 4.4 below. “FMBs” will be issued in accordance with SoCalGas’ trust indenture dated October 1, 1940, as amended and supplemented, and filed with the Commission. The supplemental indenture delivered in connection with each new series of FMBs will be in a form consistent with supplemental indentures previously filed with the Commission.

Secured debt may be sold to either domestic or foreign investors. It may be sold to underwriters who in turn will offer the secured debt to investors, or it may be sold directly to investors either with or without the assistance of a private placement agent. Secured debt may be registered with the Securities and Exchange Commission (SEC), depending on the method of offering and sale, and may be listed on a stock exchange.

In certain instances, SoCalGas may enter into contractual agreements whereby a third party will provide appropriate credit facilities as security for a secured debt issue. The cost of the credit facilities will be included in determining the issue’s overall cost.

Unsecured debt (debentures). Debentures may be sold to either domestic or foreign investors. They may be sold to underwriters who in turn will offer the debentures to investors, or they may be sold directly to investors either with or without the assistance of a placement agent. Debentures may be registered with the SEC, and may be listed on a stock exchange. Unsecured debt may be senior or subordinated.

Foreign debt. Debt Securities issued by SoCalGas in foreign capital markets may be denominated in, or proceeds from their sale received in, United States (U.S.) dollars or in other currencies. International bond issuance is

commonly separated into two categories, U.S.-pay and foreign-pay. The U.S.-pay international bond market consists primarily of Eurodollar bonds, which are issued and traded outside of the U.S. and denominated in U.S. dollars. The foreign-pay, or simply foreign, bond market describes issues sold in a country outside of the U.S. in the local currency.

Certain circumstances may make international borrowing attractive to a U.S. utility. Competition among global investment banks may create low-cost offshore funding opportunities. Foreign bond markets may have a better appetite for a particular debt security than domestic markets. A domestic utility may find international markets more accessible during a time when domestic bond markets are not. To reduce or eliminate the risk of currency fluctuations, SoCalGas may engage in currency swaps, as defined in Section 4.4.

DLTLs. SoCalGas may enter into direct long-term loans, which are Debt Securities with a maturity of greater than one year pursuant to a line of credit with banks, insurance companies, or other financial institutions. SoCalGas may enter into loans when it finds that interest rates or other circumstances make it attractive to do so.

Accounts-receivable financing. SoCalGas may issue Debt Securities secured by a pledge, sale or assignment of its accounts receivable. SoCalGas anticipates that the transactions would be structured to be a true sale for bankruptcy purposes, a sale for financial reporting, and debt for tax purposes, although other structures may be developed using accounts receivable as security or collateral. Because an accounts-receivable financing would be an encumbrance on utility property to the extent that accounts receivable are considered to be utility property, SoCalGas requests authority under Public Utilities Code § 851 to mortgage and encumber utility property.

Variable-rate debt. SoCalGas anticipates that from time to time the cost of SoCalGas debt may be reduced by issuing variable-rate Debt Securities. A variable-rate Debt Security includes, but is not limited to, Debt Securities bearing interest based on the prime rate of banks, the London Interbank Offer Rate (LIBOR), or some other referenced interest rate. A variable-rate debt security may also be a Debt Security for which investors possess a series of periodic mandatory put options that require SoCalGas to repurchase all or a portion of the Debt Securities, and which may be coupled with a remarketing obligation by SoCalGas of the repurchased Debt Security. Certain variable-rate debt securities require credit support, such as bank lines, which are in the form of a short-term or long-term bank line agreement. Since these credit facilities are an integral part of the variable rate debt issuance, such facilities (and any borrowing thereunder) should not be considered by the Commission to count against existing short-term debt authorizations.

"Fall-away" mortgage bonds. SoCalGas may wish to issue debt that is initially secured and subsequently convertible into unsecured debt known as "fall-away bonds." These senior notes are initially secured under their indenture by collateral FMBs issued in equal principal amount under the existing 1940 first mortgage indenture and delivered to the fall-away indenture trustee. Subsequent to the redemption or maturity of all outstanding FMBs (other than the collateral FMBs held by the fall-away indenture trustee), the fall-away bonds will become unsecured general obligations of SoCalGas. The fall-away bonds' indenture will require the newly unsecured obligations to be secured equally with any secured bonds that may be issued in the future.

4.4. Debt Enhancements

SoCalGas requests authorization to include certain features in its Debt Securities or enter into certain derivative transactions related to underlying debt. Such measures would be taken when appropriate to improve the terms and conditions of SoCalGas' Debt Securities and to lower the overall cost of money for the benefit of the ratepayers. SoCalGas is requesting many of the same type of security enhancements requested in SoCalGas' last financing application, A.12-12-003, and approved by the Commission in D.13-05-002. The types of debt enhancements requested by SoCalGas are described below:

Put options. SoCalGas anticipates that from time to time the cost of its Debt Securities may be reduced by the inclusion of a put option. This feature grants to a Debt Security owner the right to require SoCalGas to repurchase all or a portion of that holder's securities, commonly referred to as "putting" the security back to the company. Debt Security holders are willing to accept a lower interest rate in exchange for the protection against rising interest rates offered by the put option.

Call options. SoCalGas anticipates that from time to time it may retain the right to retire, fully or partially, a Debt Security before the scheduled maturity date. This is commonly referred to as "calling" the Security. The chief benefit of such a feature is that it permits SoCalGas, should market rates fall, to replace the bond issue with a lower-cost issue, thus producing a positive net benefit to ratepayers.

Sinking funds. SoCalGas anticipates that from time to time the cost of SoCalGas Debt Securities may be reduced by the use of a sinking fund. A sinking fund typically operates in one of two ways: i) SoCalGas may set aside a sum of money periodically so that, at the maturity date of the bond issue, there is

a pool of cash available to redeem the issue, or ii) SoCalGas may periodically redeem a specified portion of the bond issue. Typically, SoCalGas would have the right to meet its sinking fund obligations in the latter fashion by either calling a certain number of bonds or purchasing the bonds in the open market.

Interest-rate swaps. An interest-rate swap is a contractual agreement between two parties to exchange a series of payments for a stated period. In a typical interest-rate swap, one party pays the other fixed-rate interest while, in turn, the other pays floating-rate interest, both payment obligations being based on a notional principal amount (i.e., no principal is exchanged). Swaps are generally used to reduce either fixed-rate or floating-rate costs, or to convert fixed-rate borrowing to floating.

Swaptions. Swaption contracts give the right to enter into a swap agreement (or to exit a swap) under specified terms and conditions. The swaption's strike price, maturity, size, and structure can be tailored to suit a party's needs. Corporate treasurers use swaptions to hedge an existing or anticipated exposure while retaining the ability to benefit from an advantageous change in interest rates, which is a benefit ultimately realized by SoCalGas ratepayers in a lower cost of debt.

Caps and collars. In order to reduce ratepayers' exposure to interest rate risk on variable-rate securities, SoCalGas may negotiate some type of maximum rate, usually called a cap. In that case, even if variable rates increase above the cap (or ceiling) rate, SoCalGas would only pay the ceiling rate. In addition to the ceiling rate, sometimes a counterparty may desire a "floor" rate. In the event that the variable rate falls below the floor rate, SoCalGas would pay the floor rate. The combination of a floor and a ceiling rate is called an interest-rate collar

because SoCalGas' interest expense is restricted to a band negotiated by SoCalGas and the counterparty.

Currency swaps. A currency swap is an arrangement in which one party agrees to make periodic payments in its domestic currency, based on either fixed or floating interest rates, to a counterparty who in turn makes periodic payments to the first party in a different currency. The payments are based on principal amounts that are exchanged at the initiation of the swap and re-exchanged at maturity. Currency swaps are useful for the management of exchange risk and will be used when necessary to hedge exposures created by Debt Securities denominated in foreign currencies.

Credit enhancements. SoCalGas may desire to obtain credit enhancements for Debt Securities, such as letters of credit, standby bond purchase agreements, surety bonds or insurance policies, or other credit support arrangements. Such credit enhancements may be included to reduce interest costs or improve other credit terms. The cost of such credit enhancements would be included in the cost of the Debt Securities.

4.5. Hedging the Issuance of Debt Securities

Under certain circumstances, SoCalGas may wish to hedge the issuance of Debt Securities. For instance, compliance with legal, regulatory, and administrative matters may preclude SoCalGas from acting on a low-cost funding opportunity during a time of market volatility. Conversely, SoCalGas may have an immediate need for funds, but be reluctant to fix its cost at prevailing interest rates. Issuance-hedging strategies grant SoCalGas the ability to enter financial markets at times when interest rates or other circumstances appear most favorable. In this Application, SoCalGas is requesting authority for

certain types of issuance-hedging strategies previously granted by the Commission in D.13-05-002.

Treasury lock. This approach, commonly referred to as a “T-lock” is used to fix the Treasury component of SoCalGas’ borrowing cost in advance of the offering. Here, SoCalGas and the counterparty define a threshold Treasury yield that determines the T-lock’s value at expiration. The T-lock’s expiration date is set to correspond with the planned Debt Security’s offering date. If interest rates rise, SoCalGas will receive a cash payment that offsets the higher interest cost of the newly issued debt. If interest rates decline, SoCalGas will make a cash payment to the counterparty that will be offset by the new debt’s lower interest cost. A Treasury lock reproduces the results of a forward sale of Treasury bonds while sparing the issuer a forward sale’s administrative complications.

Interest-rate swaps. A forward-starting interest-rate swap allows SoCalGas to either i) delay a securities issuance and capture current yields, or ii) issue securities immediately and price them later to benefit from a fall in interest rates. As the fixed-rate payer in an interest-rate swap, SoCalGas hedges its future borrowing costs. If interest rates rise, unwinding the swap at a profit offsets higher borrowing costs. If interest rates decline, lower borrowing costs offset the loss caused by unwinding the swap.

As the floating-rate payer in an interest-rate swap, SoCalGas hedges its current borrowing costs. If interest rates decline, SoCalGas will unwind the swap at a profit, thus compensating for the lost opportunity to finance at lower rates. If interest rates rise, the interest expense savings realized by issuing immediately will be offset by the loss caused by unwinding the swap.

4.6. Estimated Cost of the Debt Securities

SoCalGas provided the following estimate of the cost of the requested Debt Securities, assuming that A.15-08-018 is granted and \$2.8 billion of Debt Securities are issued in accordance with the timeframe forecasted in A.15-08-018:

Table 3 Debt Issuances by Year							
A	B	C	D	E	F	G	H
Date Issued	Principal (\$000)	Term (Years)	Coupon Rate	Annual Interest (\$000)	Issuance Fees (\$000)	Amortized Issuance Fees (F ÷ C) (\$000)	Total Annual Costs (E + G) (\$000)
June 2016	900,000	30	4.56%	41,035	8,375	279	41,314
June 2017	900,000	30	4.71%	42,377	8,375	279	42,656
June 2018	1,000,000	30	4.95%	49,488	9,250	308	49,796
Total	\$2,800,000			132,900	26,000	867	133,766
Total Costs for 30 Years (\$000)							4,012,988

Table 3 shows that SoCalGas forecasts it will issue \$2.8 billion of Debt Securities with a maturity of 30 years at an annual cost of \$133.766 million, assuming all the Debt Securities are issued and outstanding. The total forecasted cost is \$4.013 billion over the 30-year life of the Debt Securities.

The estimated costs shown in Table 3 are limited to interest expense and amortized issuance costs. Table 3 does not include repayment of principal, the costs and benefits of debt enhancements and hedges, if any, or the fee that SoCalGas must pay under Pub. Util. Code § 1904(b) for authority to issue debt.

5. Discussion

5.1. Authority to Issue Long-Term Debt Securities

SoCalGas' application for authority to issue \$2.8 billion of long-term Debt Securities is subject to Public Utilities Code §§ 816 - 818. Section 816 provides the Commission with broad discretion to determine if a utility should be authorized to issue long-term debt securities, and to attach conditions to the issuance of debt securities in order to protect and promote the public interest.

Pub. Util. Code § 817 provides that a public utility may issue long-term debt only for the purposes specified in § 817. Here, SoCalGas requests authority to issue \$2.8 billion of Debt Securities for the following purposes: (1) refinance \$7.5 million and \$500 million of long-term debt that matures in 2016 and 2018 respectively, and (2) finance construction expenditures for gas distribution, transmission and storage, AMI, PSEP, and the North-South Pipeline Project during the three-year period of 2016 - 2018. We find these two purposes are permitted by Pub. Util. Code § 817(b), which authorizes the issuance of long-term debt for the construction, completion, extension, or improvement of facilities; by § 817(c), which authorizes the issuance of long-term debt for the improvement or maintenance of service; and by § 817(d), which authorizes the issuance of long-term debt for the discharge or lawful refunding of the utility's obligations.

Pub. Util. Code § 818 provides that a public utility may not issue long-term debt unless it has first secured a Commission order authorizing the issue, stating the amount thereof, and the purposes to which the proceeds thereof are to be applied. Section 818 further requires the Commission to find that the money, property, and/or labor to be procured with the debt proceeds are reasonably

required for the purposes specified in the order, and that such purposes are not, in whole or in part, reasonably chargeable to expenses or to income.

In accordance with § 818, we find that SoCalGas has demonstrated (1) a reasonable need to issue \$2.8 billion of long-term debt during the 3-year period of 2016-2018 to finance construction expenditures and to re-finance \$507.5 million of maturing long-term debt; and, (2) these purposes are not reasonably chargeable to expenses or income. However, the record of this proceeding shows that SoCalGas has unused authority from D.13-05-002 to issue \$150 million of long-term debt and no plans to issue this debt. We interpret D.13-05-002 as allowing the \$150 million to be used for the purposes authorized by today's decision.⁵

We conclude pursuant to Pub. Util. Code § 818 that SoCalGas' request to issue \$2.8 billion of Debt Securities during 2016- 2018 should be reduced by \$150 million, the amount of SoCalGas' existing unused authority. The net amount of new long-term debt authorized by today's decision is \$2.650 billion (i.e., \$2.8 billion less \$150 million).

The cost of the Debt Securities authorized by today's decision will depend on market conditions when the debt is issued. SoCalGas forecasts the annual cost of the \$2.65 billion of Debt Securities authorized by today's decision (i.e., interest costs plus amortized interest costs) will be \$126.6 million once all of the debt is issued and outstanding.⁶ The ratemaking treatment for the cost of the Debt Securities is addressed in Section 5.5.3 of today's decision.

⁵ D.13-05-002 at 2-5 and OP 1.

⁶ Table 3 in Section 4.6 of today's decision shows that SoCalGas forecasts the annual cost for \$2.8 billion of Debt Securities will be \$133.766 million. Today's decision authorizes

Footnote continued on next page

SoCalGas has requested that the authorization to issue \$2.8 billion of Debt Securities not be reduced by \$150 million. Public Utilities Code § 818 requires the Debt Securities authorized by today's decision to be reasonably required for purposes specified in today's decision.⁷ The record of this proceeding shows that all of SoCalGas' forecasted need to issue long-term debt through 2015 for the purposes authorized by today's decision can be satisfied with \$150 million of long-term debt authorized by D.13-05-002 and \$2.65 billion of Debt Securities authorized by today's decision. Consequently, we are unable to find pursuant to § 818 that SoCalGas has a reasonable need to issue more than \$2.65 billion of Debt Securities. It should also be noted that SoCalGas has unused authority to issue \$200 million of preferred stock pursuant to D.06-07-012 and D.96-09-036.

5.2. Authority to Encumber Utility Assets

SoCalGas requests authority under Pub. Util. Code § 851 to issue Debt Securities secured by utility property (first mortgage bonds) or its accounts receivable (accounts-receivable financing).

Pub. Util. Code § 851 provides that a utility shall neither dispose of nor encumber any part of its plant, system, or other property necessary or useful in

\$2.65 billion of Debt Securities, which reduces the annual cost to \$126.6 million ((\$2.65 billion ÷ \$2.80 billion) x \$133.766 million). The forecasted cost assumes that all the Debt Securities authorized by today's decision are issued and outstanding. The forecasted cost excludes (i) repayment of principal; (ii) costs and benefits for debt enhancements and hedges, if any; and (iii) the fee required by Pub. Util. Code § 1904(b).

⁷ Pub. Util. Code § 818 states: "No public utility may issue... [long-term debt] unless... it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property, or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that... such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income."

the performance of its duties to the public without prior approval from the Commission. The Commission has broad discretion under § 851 to authorize or deny an encumbrance of utility property. The primary standard used by the Commission is whether the encumbrance will adversely affect the public interest. When necessary, the Commission may attach conditions to an encumbrance in order to protect and promote the public interest.

There is no evidence in the record of this proceeding that granting SoCalGas' request for authority under § 851 to issue Debt Securities secured by utility property or accounts receivable will adversely affect the public interest. To the contrary, SoCalGas represents that secured debt may cost less than unsecured debt, resulting in a lower cost of capital for ratepayers. Therefore, consistent with Commission policy, SoCalGas' request is granted.

The authority to encumber utility property does not include authority to dispose of encumbered property that is used and useful in the provision of utility service to the public. If a default occurs and title to any of SoCalGas' plant, system, or property that is necessary or useful in the performance of SoCalGas' duties to the public is transferred pursuant to terms of the secured debt indenture, the thing transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.

5.3. Types of Debt Securities

SoCalGas seeks authority to issue the following types of Debt Securities: secured debt, unsecured debt (debentures), foreign debt, direct long-term loans, accounts-receivable financing, variable-rate debt, and fall-away mortgage bonds. The requested types of Debt Securities are described in Section 4.3 of today's

decision, and are the same types that SoCalGas was authorized to issue in D.13-05-002.⁸

As a general principle, we believe that public utilities should have reasonable latitude regarding the types of debt they may issue in order to obtain the lowest cost of capital for ratepayers. A utility's request to issue a specific type of debt security should be denied only if the requested type is unduly risky or for other good cause. That is not the case here. Accordingly, we will grant SoCalGas' request to issue the previously identified types of Debt Securities.

As noted in A.15-08-018, the variable-rate debt authorized by today's decision may require credit support such as bank lines of credit. We agree with SoCalGas that such credit-line agreements should not count against the amount of long-term debt issued by SoCalGas, provided that any borrowings under the credit line are used to pay off variable-rate debt so that both forms of debt are not outstanding at the same time.

5.4. Debt Enhancements and Hedges

SoCalGas seeks authority to use the following types of debt enhancements: put options, call options, sinking funds, interest-rate swaps, swaptions, caps and collars, currency swaps, and credit enhancements. SoCalGas also requests authority to use treasury locks and interest-rate swaps as issuance hedging strategies. The Commission authorized SoCalGas to use the same types of debt enhancements and hedging strategies in D.13-05-002.⁹

⁸ D.13-05-002 at 1.

⁹ D.13-05-002 at 1-2, 8-10 and OP 1.

In D.12-06-015, the Commission authorized utilities to use debt enhancements and hedges for debt securities, subject to after-the-fact review by the Commission. The only requirement that a utility must satisfy in a financing application is to provide “a brief description and rationale for the potential use of a debt enhancement or the risk management properties associated with the potential use of a derivative instrument to hedge risk exposure.”¹⁰ SoCalGas provided the required “description and rationale” in A.12-12-003. To reiterate, SoCalGas represents that the requested debt enhancements and hedging strategies will be used to lower the cost of debt or to obtain better terms and conditions for the benefit of ratepayers.

For the preceding reasons, SoCalGas is authorized to use the requested debt enhancements and hedging strategies, subject to the following restrictions set forth in D.12-06-015 for swaps and hedges:¹¹

1. Utilities shall list in their General Order 24-C reports to the Commission any interest income and expense from swaps and hedges during the period covered by the report.
2. Swaps and hedges shall not exceed 20% of a utility’s total long-term debt outstanding.
3. All costs associated with hedging transactions are subject to review in the utility’s next regulatory proceeding addressing its cost of capital.
4. Hedging transactions carrying potential counterparty risk must have counterparties with investment grade credit ratings.
5. If a swap or hedge is terminated before the original maturity, all termination-related costs are subject to review

¹⁰ D.12-06-015 at 28-30 and Attachment A at A-5, as corrected by D.12-07-003.

¹¹ D.12-06-015 at 29 and Attachment A at A-5, as corrected by D.12-07-003.

in the utility's next regulatory proceeding addressing its cost of capital.

6. Utilities shall provide the following to Commission Staff within 30 days of receiving a written request:
 - (i) all terms, conditions, and details of swap and hedge transactions; (ii) rationale(s) for the swap and hedge transactions; (iii) estimated costs for the "alternative" or un-hedged transactions; and (iv) copy of the swap and hedge agreements and associated documentation.

The authority granted by today's decision to use debt enhancements and hedging strategies is limited to the \$2.65 billion of Debt Securities authorized by today's decision.

We next address SoCalGas' request for authority to use the same types of debt enhancements and hedging strategies authorized by today's decision with respect to (1) the \$150 million of long-term debt that SoCalGas may issue pursuant to D.13-05-002, (2) the \$100 million of preferred stock that SoCalGas may issue pursuant to D.06-07-012, and (3) the \$100 million of preferred stock that SoCalGas may issue pursuant to D.96-09-036.¹² As a preliminary matter, SoCalGas' request is moot with respect to the \$150 million of long-term debt authorized by D.13-05-002, as that decision authorized SoCalGas to use the same types of debt enhancements and hedges that we authorize in today's decision.¹³

We decline to grant SoCalGas' request for authority to use the debt enhancements and hedging strategies authorized by today's decision with respect to the preferred stock authorized by D.06-07-012 and D.96-09-036.

¹² A.15-08-018 at 3.

¹³ The debt enhancements and hedging strategies described in Sections 4.4 and 4.5 of today's decision are the same as the debt enhancements and hedging strategies approved by D.09-09-046 at 1-2, 7-8 and OP 4.

SoCalGas' request is contrary to D.12-06-015 wherein the Commission held that debt enhancements and hedging strategies "shall only be used in connection with debt securities financings."¹⁴ Preferred stock is not a "debt security" within the meaning of D.12-06-015.¹⁵ Therefore, the debt enhancements and hedging strategies authorized by today's decision cannot be extended to the preferred stock that SoCalGas may still issue pursuant to D.06-07-012 and D.96-09-036.¹⁶

5.5. Other Regulatory Requirements

5.5.1. Financing Rule

The Financing Rule adopted by D.12-06-015 includes the following regulations regarding the issuance of new debt securities:

- Public utilities must issue debt in a prudent manner, consistent with market standards that encompass competition and transparency, with the goal of achieving the lowest long-term cost of capital.
- Public utilities must determine the financing terms of debt issues with due regard for their full financial condition and requirements, and current and anticipated market conditions.

¹⁴ D.12-06-015 at 29 and Attachment A at A-5. D.12-06-015 treats hedging strategies as a type of debt enhancement. (D.12-06-015 at 3-4, 29, and Finding of Fact 12.)

¹⁵ D.96-09-036 treats preferred stock as equity capital for regulatory purposes. (D.96-09-036, 1996 Cal Lexis 903 at 19-21, 25, and OP 1 at 33.)

¹⁶ SoCalGas is authorized by D.06-07-012 to use certain types of debt enhancements and hedging strategies with respect to the preferred stock issued pursuant to that decision. (D.06-07-012 at OP 3.) Similarly, SoCalGas is authorized by D.96-09-036 to use certain types of debt enhancements and hedging strategies with respect to the preferred stock issued pursuant to that decision. (D.96-09-036 at OPs 1.1 and 2.) Today's decision does not address whether D.12-06-015 affects SoCalGas' authority under D.06-07-012 and D.96-09-036 to use debt enhancements and hedging strategies with respect to preferred stock.

- Public utilities may choose whether to issue debt securities via competitive or negotiated bid, as long as the basis for the method is chosen to achieve the lowest cost of capital.
- Public utilities with annual operating revenues of \$25 million or more must make every effort to encourage, assist, and recruit Women-, Minority-, Disabled Veteran-, and Lesbian, Gay, Bisexual, and Transgender-Owned Business Enterprises in being appointed as lead underwriter, book runner or co-manager of debt securities offerings.
- Public utilities may use debt enhancements and hedges for debt securities, subject to certain restrictions and reporting requirements.

The Financing Rule applies to SoCalGas and the Debt Securities, debt enhancements, and hedging strategies authorized by today's decision.¹⁷

5.5.2. General Order 24-C

General Order (GO) 24-C requires public utilities that issue debt or equity to file a semiannual report¹⁸ with the Commission that includes the following information for the applicable semiannual period:

1. A description of the debt and equity issued during the semiannual period, if any, including the principal amount of each issuance, the commissions paid for each issuance, and the net proceeds received for each issuance.
2. The total amount of stock issued and outstanding at the end of the semiannual period, including the total number of shares issued and the par value, if any, of such shares.

¹⁷ The Financing Rule includes the restrictions on swaps and hedges identified in Section 5.4 of today's decision.

¹⁸ Utilities must file their GO 24-C reports quarterly for each calendar quarter through June 2013. Thereafter, utilities may file reports semiannually.

3. The total bonds and other debt issued and outstanding at the end of the semiannual period, including the principal amount of such bonds and other debt.
4. The expenditures of debt and equity proceeds during the semiannual period and the purposes for which these expenditures were made. Expenditures must be reported in a way that allows the Commission to ascertain the utility's compliance with Pub. Util. Code § 817 and the related authorizing decision.

In addition to the previously enumerated requirements, GO 24-C requires utilities to maintain records which demonstrate that the proceeds from the issuance of debt and equity have been used in a manner authorized by Pub. Util. Code § 817 and the related authorizing decision. Utilities must make the records available to Commission staff upon written request.

GO 24-C applies to SoCalGas and the Debt Securities, debt enhancements, and hedging strategies authorized by today's decision.

5.5.3. Ratemaking and Pub. Util. Code § 451

Today's decision provides SoCalGas with authority to issue \$2.65 billion of Debt Securities for two purposes: (1) refinance \$7.5 million and \$500 million of long-term debt that matures in 2016 and 2018 respectively, and (2) finance construction expenditures during 2016-2018. The authority granted by today's decision is subject to the condition that SoCalGas shall maintain its Commission-approved capital structure.

The authority to issue Debt Securities is separate from the authority to recover the cost of the Debt Securities in rates and to undertake the construction projects financed with the Debt Securities. The all-in cost of the Debt Securities will be reviewed in SoCalGas' cost-of-capital proceedings or other appropriate proceedings; and the construction expenditures financed with the proceeds from

the Debt Securities will be reviewed in general rate case proceedings, capital project-specific proceedings, or other appropriate proceedings. Based on these reviews, the Commission will determine whether the cost of the Debt Securities and the related construction expenditures may be recovered in rates pursuant to Pub. Util. Code § 451, which states as follows:

All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

Every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities, including telephone facilities, as defined in Section 54.1 of the Civil Code, as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.

**5.5.4. Regulatory Fee Levied by Pub. Util. Code
§ 1904(b)**

Pub. Util. Code § 1904(b) requires SoCalGas to pay a fee for the Debt Securities authorized by today's decision (hereafter, "§ 1904(b) fee"). The § 1904(b) fee does not apply to the portion of the Debt Securities that will be used to refinance maturing long-term debt on which the fee was paid previously.¹⁹

¹⁹ SoCalGas states in their supplemental prepared testimony on November 13, 2015, that the maturing long-term debt was authorized by D.85-06-161 or D.85-11-054, in regard to the issuance of \$7.475 million in Swiss Franc Bonds; D.96-09-036 and D.03-07-008, in regard to the issuance of \$250 million Series HH Debt; and D.13-05-002, in regard to the issuance of \$250 million Series QQ Debt, and that SoCalGas paid the applicable § 1904(b) fee in accordance with those decisions.

Today's decision authorizes SoCalGas to issue \$2.65 billion of Debt Securities, of which \$507,475,533 will be used to refinance \$507,475,533 of maturing long-term debt on which the fee was paid previously. Therefore, the net amount of Debt Securities subject to the § 1904(b) fee is \$2,142,524,467 (\$2.65 billion less \$507,475,533). The following table shows the calculation of the § 1904(b) fee for the Debt Securities authorized by today's decision:

§ 1904(b) Fee for \$2,142,524,467 of Debt Securities		
Amount	Rate	Fee
\$1,000,000	\$2 per \$1,000	\$2,000
\$9,000,000	\$1 per \$1,000	\$9,000
\$2,132,524,467	\$0.50 per \$1,000	\$1,066,262
\$2,142,524,467		\$1,077,262

SoCalGas shall pay the § 1904(b) fee shown in the above table no later than 30 days from the effective date of today's decision. The authority granted by today's decision will become effective upon the payment of the § 1904(b) fee.

5.6. California Environmental Quality Act

The California Environmental Quality Act (CEQA) applies to projects that require discretionary approval from a governmental agency, unless exempted by statute or regulation. It is well established that the creation of government funding mechanisms or other government fiscal activities which do not involve a

commitment to a specific project that may result in a potentially significant impact on the environment is not a “project” subject to CEQA.²⁰

Today’s decision does not authorize any capital expenditures or construction projects. Therefore, the Debt Securities authorized by today’s decision are exempt from CEQA. To ensure compliance with CEQA, SoCalGas shall not use the proceeds from the Debt Securities to fund any project until the required CEQA review and approval for the project, if any, has been completed.

6. Categorization and Need for Hearings

In Resolution ALJ 176-3306, dated September 17, 2015, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that a hearing is not necessary. There were no protests or responses to A.15-08-018. Based on these circumstances, we affirm that the category for this proceeding is ratesetting and that a hearing is not necessary.

7. Comments on the Proposed Decision

The proposed decision of the assigned Administrative Law Judge in this matter was mailed to the parties in accordance with Pub. Util. Code § 311, and comments were allowed pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure. Comments were filed by SoCalGas suggesting a minor technical correction to Section 4.2. The proposed decision was revised to make this technical correction.

²⁰ CEQA Guidelines, Title 14 of the California Code of Regulations, Division 6, Chapter 3, Article 20, Section 15378(b)(4). See also Cal. Pub. Res. Code § 21080(b)(8).

8. Assignment of the Proceeding

Carla J. Peterman is the assigned Commissioner for this proceeding and John A. Mikita is the assigned ALJ.

Findings of Fact

1. In A.15-08-018, SoCalGas requests authority pursuant to Pub. Util. Code §§ 816 – 818 and 851 to issue \$2.8 billion of long-term Debt Securities during the three-year period of 2016-2018 for the following purposes: (i) to refinance \$7.5 million and \$500 million of long-term debt that matures in 2016 and 2018 respectively, and (ii) to finance construction expenditures related to SoCalGas' public utility operations.

2. SoCalGas has unused authority under D.13-05-002 to issue \$150 million of long-term debt; unused authority under D.06-07-012 to issue \$100 million of preferred stock; and unused authority under D.96-09-036 to issue \$100 million of preferred stock. SoCalGas has no plan to exercise its unused authority.

3. SoCalGas has a reasonable need to issue \$2.8 billion of long-term debt securities to (i) refinance \$7.5 million and \$500 million of long-term debt that matures in 2016 and 2018 respectively, and (ii) finance construction expenditures related to SoCalGas' public utility operations during 2016 - 2018. This need can be met by (a) authorizing SoCalGas to issue \$2.65 billion of Debt Securities requested in A.15-08-018, and (b) directing SoCalGas to issue \$150 million of debt securities previously authorized by D.13-05-002.

4. In A.15-08-018, SoCalGas requests authority to issue the types of Debt Securities identified in Section 4.3 of today's decision. The requested types of Debt Securities will provide SoCalGas with flexibility to issue debt at the lowest cost to ratepayers. There is no good cause to prohibit SoCalGas from issuing any of the requested types of Debt Securities.

5. In A.15-08-018, SoCalGas requests authority under Pub. Util. Code § 851 to issue Debt Securities secured by utility property (first mortgage bonds) or by a pledge, sale, or assignment of its accounts receivable (accounts-receivable financing). Granting the request will not adversely affect the public interest.

6. The variable-rate debt authorized by today's decision may require credit support such as a bank credit-line agreement. These credit-line agreements are an integral part of the variable-rate debt.

7. In A.15-08-018, SoCalGas requests authority to use the types of debt enhancements and hedging strategies identified in Sections 4.4 and 4.5 of today's decision. The purpose of the requested debt enhancements and hedging strategies is to lower the cost or improve the terms and conditions of the Debt Securities for the benefit of ratepayers.

8. In Resolution ALJ 176-3306, dated September 17, 2015, the Commission preliminarily determined that a hearing is not necessary in this proceeding.

9. There were no protests or responses to A.15-08-018. No party raised a factual issue requiring an evidentiary hearing.

Conclusions of Law

1. SoCalGas should be authorized pursuant to Pub. Util. Code § 816–818 to issue \$2.65 billion of Debt Securities for the following purposes exclusively: (i) to refinance \$7.5 million and \$500 million of long-term debt that matures in 2016 and 2018 respectively; and (ii) to finance construction expenditures for SoCalGas' public utility operations.

2. The \$2.65 billion of Debt Securities authorized by today's decision, and the associated money, property, or labor to be procured or paid for with the proceeds from these Debt Securities, are, pursuant to Pub. Util. Code § 817 and

§ 818, reasonably required for proper purposes, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses.

3. SoCalGas may issue \$150 million of long-term debt authorized by D.13-05-002 for the purposes specified in Conclusion of Law 1.

4. SoCalGas should be authorized pursuant to Pub. Util. Code § 816 to issue the types of Debt Securities described in Section 4.3 of today's decision.

5. Credit-line agreements that are used as a credit enhancement for variable-rate debt issued pursuant to today's decision should not count against the amount of long-term debt issued pursuant to today's decision, provided that any borrowings under the credit line agreements are used to pay off variable-rate debt so that both forms of debt are not outstanding at the same time.

6. SoCalGas should be authorized pursuant to Pub. Util. Code § 851 to encumber utility assets using the types of secured Debt Securities described in Section 4.3 of today's decision. Consistent with § 851, if a default occurs and title to any SoCalGas property, franchise, permit, or right that is necessary or useful in the performance of SoCalGas' duties to the public is transferred pursuant to terms of the secured debt indenture, the thing transferred should be used to provide utility service to the public until the Commission authorizes otherwise.

7. SoCalGas should be authorized pursuant to Pub. Util. Code § 816-818 to use the types of debt enhancements and hedging strategies identified in Sections 4.4 and 4.5 of today's decision with respect to the Debt Securities authorized by today's decision.

8. SoCalGas' request in A.15-08-018 for authority to use the same types of debt enhancements and hedging strategies authorized by today's decision with respect to the long-term debt authorized by D.13-05-0002 is moot. The authority requested by SoCalGas was granted by D.13-05-002.

10. SoCalGas' request in A.15-08-018 for authority to use the debt enhancements and hedging strategies authorized by today's decision with respect to the preferred stock authorized by D.06-07-012 and D.96-09-036 should be denied. The Financing Rule adopted by D.12-06-015 limited the use of debt enhancements and hedging strategies to debt securities. The preferred stock authorized by D.06-07-012 and D.96-09-036 is not debt for Commission regulatory purposes; and, therefore, does not qualify for the debt enhancements and hedging strategies authorized by today's decision.

11. The Financing Rule and GO 24-C apply to SoCalGas and the Debt Securities, debt enhancements, and hedges authorized by today's decision.

12. The authority granted by today's decision to issue Debt Securities is separate from the authority to (i) recover the cost of the Debt Securities in rates; (ii) acquire, purchase, or construct utility plant with the proceeds from the Debt Securities; and, (iii) recover the cost of utility plant in rates.

13. The Commission will determine in future regulatory proceedings whether the all-in cost of the Debt Securities issued pursuant to today's decision is just and reasonable and may be recovered in rates; and, whether the construction expenditures funded with proceeds from the Debt Securities are reasonable and may be recovered in rates.

14. SoCalGas should not use the proceeds from the Debt Securities authorized by this decision to acquire, purchase, or construct any utility plant without first obtaining all required approvals for the contemplated plant, including any required environmental review and approvals under CEQA.

15. Today's decision is exempt from CEQA.

16. SoCalGas is required by Pub. Util. Code § 1904(b) to remit a check for \$1,077,262 to the Commission, as set forth in Section 5.5.4 of today's decision.

17. The authority granted by today's decision should not become effective until SoCalGas has paid the fee prescribed by § 1904(b).

18. There are no factual issues in this proceeding that require an evidentiary hearing. The preliminary determination in Resolution ALJ 176-3306 that a hearing is not needed should be confirmed by this Decision.

19. In Resolution ALJ 176-3306, dated September 17, 2015, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that a hearing is not necessary. There were no protests or responses to A.15-08-018. Based on these circumstances, we affirm that the category for this proceeding is ratesetting and that a hearing is not necessary.

20. This proceeding should be closed.

21. The following order should be effective immediately so that SoCalGas may issue the Debt Securities authorized by the order.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized pursuant to Public Utilities Code Sections 816 - 818 and 851 to do the following:

- a. Issue long-term debt securities in an aggregate principal amount not to exceed \$2.65 billion (hereafter, "Debt Securities"). SoCalGas shall use the proceeds from the Debt Securities for the following purposes exclusively:
 - (i) refinance \$7.5 million and \$500 million of long-term debt that matures in 2016 and 2018 respectively; and,
 - (ii) finance construction expenditures that are authorized by Public Utilities Code Section 817, and (B) finance construction expenditures for gas distribution, transmission and storage, Advanced Metering Initiative, Pipeline Safety Enhancement Plan, and the North-South Pipeline Project.
- b. Issue the following types of Debt Securities: secured debt (including First Mortgage Bonds), unsecured debt (debentures), foreign debt, direct long-term loans, accounts-receivable financing, variable-rate debt, and fall-away mortgage bonds. The principal amount, terms and conditions of each issue of Debt Securities may be determined by SoCalGas' management or board of directors based on market conditions at the time of issuance.
- c. Issue Debt Securities that are secured by utility property (First Mortgage Bonds) or by a pledge, sale, or assignment of accounts receivable (accounts-receivable financing). If a default occurs and title to any SoCalGas property, franchise, permit, or right that is necessary or useful in the performance of SoCalGas' duties to the public is

transferred pursuant to the terms of the secured debt indenture, the thing transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.

- d. Use the following types of debt enhancements and derivative transactions with respect to the Debt Securities authorized by this Order: put options, call options, sinking funds, interest-rate swaps, swaptions, caps and collars, currency swaps, and credit enhancements.
- e. Use the following types of hedging strategies with respect to the planned issuance of Debt Securities authorized by this Order: treasury locks and interest-rate swaps.

2. Southern California Gas Company's issuance of the Debt Securities, debt enhancements, derivative transactions, and hedging strategies authorized by this Order are subject to (a) the Financing Rule adopted by Decision (D.) 12-06-015, as corrected by D.12-07-003; (b) General Order 24-C; and, (c) the capital structure and associated capital ratios adopted by the Commission.

3. Within 30 days from the effective date of this Order, Southern California Gas Company shall remit a check for \$1,077,262 pursuant to Public Utilities Code Section 1904(b) to the Commission's Fiscal Office at 505 Van Ness Avenue, Room 3000, San Francisco, CA 94102. The decision number of this Order must appear on the face of the check. The authority granted by this Order shall become effective when SoCalGas pays the fee required by Section 1904(b).

4. This Order does not authorize or approve any of Southern California Gas Company's capital projects, construction expenditures, rate base, capital structure, or cost of money.

5. Southern California Gas Company may not use the proceeds from the Debt Securities authorized by this Order to finance any project until SoCalGas

has obtained all required approvals for the project, including any required review and approval under the California Environmental Quality Act.

6. The authority granted to Southern California Gas Company by this Order is in addition to the authority granted by Decision (D.) 13-05-002, D.06-07-012, and D.96-09-036.

7. The preliminary determination in Resolution ALJ 176-3306 that a hearing is not needed in this proceeding is confirmed by this Decision.

8. Application (A.) 15-08-018 is granted to the extent set forth in the previous Ordering Paragraphs. A.15-08-018 is denied to the extent it requests authority to (i) issue more than \$2.65 billion of Debt Securities; and (ii) apply the debt enhancements and hedging strategies authorized by this Order to the preferred stock that Southern California Gas Company may issue pursuant to Decision (D.) 06-07-012 and D.96-09-036.

9. Application 15-08-018 is closed.

This order is effective today.

Dated _____, 2016, at San Francisco, California